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TAGS: [EAID](#) [EFIN](#) [ECON](#) [PREL](#) [PGOV](#) [KWBG](#)
SUBJECT: EUROPEAN COMMISSION TEAM ARRIVES TO IMPLEMENT
TEMPORARY INTERNATIONAL MECHANISM

Classified By: Consul General Jake Walles for reasons 1.4 (b) and (d).

¶1. (C) Summary: European Commission officials said July 5 that the Commission's Management Team to implement the Temporary International Mechanism (TIM) would be fully operational in Jerusalem during the week of July 10. The Acting World Bank Country Director said the Emergency Services Support Program (ESSP) would be ready to accept donors' donations in mid-July and planned to release funds in early August for non-salary expenditures in the health, education, and social affairs sectors (though the Quartet-approved TIM document only refers to health sector expenditures). Commission officials were not prepared to discuss their plans on how to screen and disburse allowances to healthcare sector employees. The Commission is ready with another 40 million euro tranche under Window II of the TIM. While the Commission had expected the World Bank to take the lead on setting up a needs-based allowance system (Window III in the TIM), the Bank again declined to take the lead. The Commission proposed that the first meeting of the TIM Consultative Group be held July 17. End summary.

TIM Management Team on the ground

¶2. (C) Richard Weber, Director of the regional EuropeAid office at the European Commission, told USAID Mission Director, ConGen EconChief, and USAID and Embassy EconOffs July 5 that his visit to Jerusalem was timed so he could supervise the establishment of the Commission's TIM Management Team in Jerusalem. While five staff are already on the ground, including TIM Management Team Head Hans Duynhouwer, there would be a total of 30 staff divided between operational, finance, and administrative groups with almost half focused on finance, audit, and accountability functions and many from local firms affiliated with international accounting firms. Weber said the team would be fully staffed by the week of July 10. World Bank Acting Country Director Faris Hadad-Zervos said that Claus Alstrup would arrive that week from World Bank headquarters to provide technical assistance based upon the Bank's experience elsewhere with similar mechanisms. Before actual operations can begin, the Commission is waiting for President Abbas to

sign an agreement covering the European Commission contribution to all three windows of the TIM. Weber said that the Commission would be using HSBC's London branch as its main financial intermediary for TIM implementation.

Window I: ESSP

13. (C) Weber said the Commission is waiting for the World Bank to commence the latest version of the Emergency Services Support Program (ESSP) but stressed that it should be no later than the beginning of August. According to Weber, the European Commission, Spain, Belgium, Denmark, Germany, France, Italy, and the United Kingdom have already pledged to provide funds to the ESSP. He noted that Spain had indicated it may request a single donor trust fund be set up for its contribution.

14. (C) Hadad-Zervos described how the Bank had revised the ESSP mechanism so that the funds, a likely maximum of USD 7 million per month based on past expenditures, would flow through the Office of the President, not the PA Finance Ministry. He noted that the focus would still be on a defined list of non-salary expenditures for the health, education, and social affairs sectors, as the ESSP operated previously, and that the "nuts and bolts day-to-day work" would still be with the PA ministries of health, education, and social affairs. Hadad-Zervos also noted that the Bank is willing to consider adding more sectors, such as water and sanitation, if donors so request. (Note: The Bank continues to focus on the three sectors, not just the health sector as stipulated in the Quartet-approved TIM paper. We have noted this disparity to Hadad-Zervos, who said that the Bank is including all three sectors as a result of specific instructions from World Bank President Wolfowitz. He said

Wolfowitz had instructed Bank staff to shift the flow of funds to the President's Office under the ESSP and not to change anything else. Wolfowitz relayed this to the European Commission's Benita Ferrero-Waldner in a June 15 letter. (Post e-mailed a copy of the letter to NEA/IPA). If this is of concern to the USG, we believe it needs to be raised in Washington with World Bank headquarters. The World Bank prepared a concept note and implementation note on the ESSP for interested donors which Post e-mailed to NEA/IPA. End Note.) Hadad-Zervos said the Bank is seeking funds from donors by the end of July. At the beginning of August, he hoped President Abbas would sign an agreement with the World Bank, thereby allowing the flow of funds to start immediately thereafter.

15. (C) We pressed Weber for more details on how the European Commission planned to screen and disburse allowances to healthcare sector employees. Weber noted that the Commission had distributed application forms to public sector hospitals and that it was the Commission's understanding that non-public sector healthcare workers are being paid, including those at Palestinian Red Crescent Society (PRCS) facilities. He stressed that the Commission would only consider allowances to those workers who had not received a salary, essentially only PA employees.

Window II: IERC

16. (C) Weber confirmed that the Commission had exhausted its remaining funds under the Interim Emergency Relief Contribution (IERC) program (first tranche of 40 million euros) to finance diesel supplies for the Gaza Power Plant. Weber said a second tranche of 40 million euros would be used to pay any utility bills owed by the Palestinian Authority to Israeli suppliers that were not already being paid by the GOI from the clearance revenue escrow account. Weber said the Commission would also consider purchasing fuel, under the IERC, for stand-alone generators in Gaza, especially the 700,000 liters needed per month by hospitals.

Window III: Needs-based allowances

¶17. (C) Weber said that the Commission had assumed the World Bank would take the lead on Window III. Hadad-Zervos clearly stated to the group that the Bank has no plans to take the lead on Window III but is willing to offer technical assistance. Weber said the TIM management team would consult locally with UN agencies and others in order to formulate a mechanism to screen applications for needs-based allowances. He pressed USAID and ConGenOffs on what the USG could offer, and we suggested that they invite USG representatives to participate in their consultative meetings. We also suggested that they build upon existing approaches, such as the WFP's use of local councils to screen Food-for-Work and Food-for-Training beneficiaries and the European Commission's on-going humanitarian assistance program. We also noted that current beneficiaries of food assistance should not be overlooked since they, too, need cash to pay for expenditures.

¶18. (C) Weber said he had met separately with Palestinian Monetary Authority Governor George Abed and the heads of local banks. Weber said the bankers had told him they would be willing to deliver funds to the beneficiaries, even if those beneficiaries do not hold bank accounts at their banks. The bankers said they would need a list of Commission-approved beneficiaries which they would then vet through their own anti-terrorism compliance programs before disbursing funds.

Proposed Consultative Group meeting

¶19. (C) Weber said he hoped that the first meeting of the Consultative Group could be held July 17 in Jerusalem and proposed the following participation: European Commission, United States, IMF, World Bank, United Nations, and Russia.

At the moment, there are no contributing donors but those could be included in future meetings. He also said the TIM implementing team would serve as the Consultative Group's Secretariat and that they would reach out to Norway and

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Switzerland since both had already expressed interest in participating in the TIM.

Other European Commission activities

¶10. (C) Weber noted that the Commission is also awaiting President Abbas' signature on an agreement that would make a Commission-funded audit team (4-5 people initially and then additional experts as needed) available to the Office of the President within a week after signature. Weber noted that the Commission is urgently looking at purchasing generators for hospitals in Gaza under a separate non-TIM mechanism. He also confirmed that the Commission would be supplying scanning equipment for the Rafah passenger crossing once the situation returns to normal.

WALLES